

**CITY OF SABULA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2015 THROUGH JUNE 30, 2016**

# CITY OF SABULA

## TABLE OF CONTENTS

	Page No.
Officials	1
Independent Accountant's Report on Applying Agreed-Upon Procedures	2-4
<b>Detailed Recommendations:</b>	<b>Finding</b>
Segregation of Duties	A 5-6
Bank Reconciliations	B 6
Separately Maintained Records	C 6
Certified Budget	D 6
Investment Policy	E 6
Disbursements	F 7
Special Revenue, FEMA Flood Pump Grant Fund	G 7
Questionable Disbursements	H 7
Financial Condition	I 7
Monthly Clerk's Report	J 8
Utility Collections Cash	K 8
Official Depositories	L 8
Payroll Clearing Account	M 8
Comparison of Actual Disbursements to Budget	N 8
Financial Reporting	O 9

## CITY OF SABULA

### OFFICIALS

Name	Title	Term Expires
	(Before January 2016)	
Paul Figie	Mayor	January 2016
Eric Hartman	Council Member	January 2018
Teena Franzen	Council Member	January 2018
Marian Alimi	Council Member	January 2016
Darwin Paddock	Council Member	January 2016
Henry Kramer	Council Member	January 2016
Lynn Parker	Clerk/Treasurer	Indefinite
Brian Donnelly	Attorney	Indefinite
	(After January 2016)	
Troy Hansen	Mayor	January 2019
Jim Phillips	Council Member/ Mayor Pro-Tem	January 2021
Eric Hartman	Council Member	January 2018
Teena Franzen	Council Member	January 2018
Albert Mangler	Council Member	January 2021
Pat Meyers	Council Member	January 2021
Lynn Parker	Clerk/Treasurer	Indefinite
Brian Donnelly	Attorney	Indefinite

1415 Locust Street  
P.O. Box 743  
Dubuque, IA 52004-0743  
Phone | 563-582-7224  
Fax | 563-582-6118

901 Spring Street  
P.O. Box 294  
Galena, IL 61036-0294  
Phone | 815-777-1880  
Fax | 815-777-3092

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Honorable Mayor and Members of the City Council

[www.oconnorbrooks.com](http://www.oconnorbrooks.com)

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Sabula for the period of July 1, 2015 through June 30, 2016. The City of Sabula's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of

Sabula, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sabula and other parties to whom the City of Sabula may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sabula during the course of our agreed upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

*O'Connor, Brooks & Co., P.C.*

Dubuque, Iowa  
November 23, 2016

## **CITY OF SABULA**

### **DETAILED RECOMMENDATIONS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016**

A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
2. Cash – handling, reconciling, and recording.
3. Investments – recordkeeping, investing, custody of investments and recording earnings.
4. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
5. Utilities – billing, collecting, depositing, posting, entering rates into the system, and maintaining detailed accounts receivable and write-off records.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Journal entries – preparing and journalizing.
8. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
9. Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
10. Computer system – performing all general accounting functions and controlling all data input and output.
11. Financial reporting – preparing and reconciling.

For the Sabula Volunteer Fire Department, Krabbenhoft Public Library, Sabula Business Association, Sabula Rescue, and Sabula Ambulance accounts, one individual has control over each of the following areas:

1. Receipts – collecting, depositing, posting, and reconciling.
2. Disbursements – preparing, recording and reconciling.
3. Cash – handling, reconciling, and recording.

## CITY OF SABULA

### DETAILED RECOMMENDATIONS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- B. Bank Reconciliations – The cash and investment balances in the City of Sabula's general ledger were reconciled to bank and investment account balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of \$2,023 and \$4,152 were not resolved. One of the bank reconciliations reviewed also did not foot. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

- C. Separately Maintained Records – The Sabula Volunteer Fire Department, Sabula Rescue, Sabula Business Association and Sabula Ambulance maintain accounting records separate from the City's accounting records. These transactions and resulting balances were not included in the City's accounting records and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose". For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- D. Certified Budget – Disbursements during the year exceeded budgeted amounts in the Public Safety and General Government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- E. Investment Policy – The City of Sabula has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.



## CITY OF SABULA

### DETAILED RECOMMENDATIONS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016

- F. Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located. In addition, two transactions tested required the vendor to send copies of the invoices.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

- G. Special Revenue, FEMA Flood Pump Grant Fund – The City has a Special Revenue, FEMA Flood Pump Grant Fund which has had an unchanged fund balance of \$1,515 since the fiscal year ended June 30, 2010. City personnel were unable to determine as to the purpose of the remaining fund balance or if the City has an obligation to reimburse for excess funds received.

Recommendation – We recommend the City investigate the remaining fund balance in this fund. The City should determine if an adjustment is needed to reduce the fund balance to \$0 or if the City is obligated to reimburse FEMA for these monies.

- H. Questionable Disbursements – Certain disbursements we believe may not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
K and J Shop	10 Pizzas (Ambulance)	107
Various	Pop for Sabula Ambulance	78

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- I. Financial Condition – The General Fund had a deficit balance at June 30, 2016 of \$43,042.

Recommendation – The City should investigate alternatives to eliminate the General Fund deficit balance and return the fund to a sound financial position.

## CITY OF SABULA

### DETAILED RECOMMENDATIONS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016

- J. Monthly Clerk's Report – The monthly Clerk's Report presented to the City Council does not always contain receipts, disbursements, transfers and balances for each fund and in total.

Recommendation – The receipts, disbursements, transfers, and balances for each fund and in total should be included in the monthly reports presented to the City Council.

- K. Utility Collections Cash – The City keeps \$100 in a cash register used for utility collections which is not being included in the City's accounting records and resulting fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including amounts in the utility collections cash register, should be included in the Clerk's accounting system.

- L. Official Depositories – A resolution naming official depositories had been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. However, this resolution covered a period ending January 31, 2016. A new depository resolution was not passed until September 2016.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council before the expiration of the previous resolution.

- M. Payroll Clearing Account – The City's cash balance per the general ledger was \$1,767 greater than the City's fund balance per the general ledger at June 30, 2016. Although the City reports on the cash basis of accounting, certain payroll disbursements are posted using the accrual basis of accounting using a "Payroll Clearing" liability account. At June 30, 2016, this liability account had the offsetting balance of \$1,767. The balance at June 30, 2016 is the result of multiple transactions which were never cleared out of the account.

Recommendation – The City should investigate the balance in the "Payroll Clearing" account and adjust accordingly. In addition, the City should implement procedures to reconcile the "Payroll Clearing" liability account in the future to ensure the City's financial transactions are properly recorded and reported using the cash basis of accounting.

- N. Comparison of Actual Disbursements to Budget – The City Council receives a "Budget Expenditures Report" which shows a comparison of actual disbursements to budget by function and by line item. However, the budgeted expenditures on this report did not match the budgeted expenditures on the City's adopted budget.

Recommendation – We recommend the "Budget Expenditures Report" provided to City Council includes budgeted disbursements by function which match the City's adopted budget.

## **CITY OF SABULA**

### **DETAILED RECOMMENDATIONS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016**

- O. Financial Reporting – The following errors in the City’s financial reporting were noted:

The City recorded debt proceeds of \$45,000 from a Water Fund Interim Loan and Disbursement Agreement as an offset to disbursements. The debt proceeds should have been recorded as other financing source revenue.

Engineering expenses related to the City’s water system were mistakenly coded to the Sewer Fund. These amounts should have been recorded in the Water Fund.

FEMA flood monies received were recorded in the FEMA Flood Pump Grant Fund. These amounts should have been recorded in the General Fund.

Recommendation – The City should record adjusting journal entries to correct the financial reporting errors noted above. The City should establish procedures to ensure that all transactions are recorded properly in the City’s accounting records.